



## **CITY OF SANTA BARBARA**

### **COUNCIL AGENDA REPORT**

**AGENDA DATE:** June 22, 2010

**TO:** Mayor and Councilmembers

**FROM:** Risk Management Division, Finance Department

**SUBJECT:** Agreement For Workers' Compensation Claims Administration

**RECOMMENDATION:** That Council authorize the Finance Director to negotiate and execute a professional services agreement with JT<sup>2</sup> Integrated Resources to:

- A. Provide workers' compensation claims administration for three fiscal years beginning July 1, 2010, and ending June 30, 2013, for annual fees of \$215,000, \$221,450, and \$229,201, respectively; and
- B. Provide medical bill review services for three fiscal years beginning July 1, 2010, and ending June 30, 2013, for an annual fee of \$73,689.

#### **DISCUSSION:**

The purpose of the workers' compensation program is to provide benefits to employees who sustain an injury or an occupational disease arising out of the course of employment. California law requires every employer to provide workers' compensation coverage to its employees. As such, the workers' compensation program is a benefit delivery system. Workers' compensation benefits include medical treatment, temporary disability payments, and permanent disability payments.

The administrative services provided by JT<sup>2</sup> Integrated Resources (JT<sup>2</sup>) are needed to comply with State mandates governing self-insured workers' compensation programs. Services provided by JT<sup>2</sup> include claims processing, dispensing benefits and payments mandated by California law, medical bill review and other cost containment services, subrogation, litigation control, file maintenance, and statistical reporting.

JT<sup>2</sup> has provided workers' compensation claims administration services since staff last solicited bids in 1996. An independent audit of JT<sup>2</sup> performance was conducted in November of 2009 resulting in an overall favorable rating. JT<sup>2</sup> provides the City with the qualifications, experience, technical support, performance guarantees, medical bill review, and fixed price to operate an efficient workers' compensation program that complies with State laws and mandates.

The City and JT<sup>2</sup> changed the way the City pays for “medical bill review” in 2009. This contract continues this innovative way to maximize cost savings. Medical bill review is a cost control function that consists of comparing the medical procedure and amount billed to the state-mandated fee schedules and preferred provider organization (PPO) contracts. Any discrepancy identified is deducted from the bill submitted, and the City pays only that amount mandated or contracted. This is one of several tools staff uses in its overall cost containment program. In Fiscal Year 2009, the medical bill review service resulted in identified medical cost savings of over \$1 million.

In the past, the fee for medical bill review was based on a “per-line” (of the medical bill) review charge or a percentage of net-savings.” Under the proposed contract, services for medical bill review will be paid on a flat annual fee. This change will result in an annual cost savings of 40%. The flat fee is subject to a minimum (2,000) and maximum (2,500) of medical bills processed. A rebate or additional levy will apply if the number of reviewed medical bills processed is less than the minimum or exceeds the maximum. Staff projects the number of billings received will be within the proposed range. This projection is based on the number of medical bills received during the past three fiscal years.

#### **BUDGET/FINANCIAL INFORMATION:**

Under the terms of the recommended contract, the cost for services provided by JT<sup>2</sup> during Fiscal Year 2011 will be \$215,000; a decrease of 11% from the amount paid in Fiscal Year 2010. The cost for Fiscal Year 2012 will be \$221,450; an increase of 3% year-over-year. The cost for Fiscal Year 2013 will be \$229,201; an increase of 2% year-over-year. In each year, the contract can increase or decrease by 5% based on the performance of the contractor.

Under the terms of the recommended contract, the annual cost for bill review services provided by JT<sup>2</sup> during Fiscal Years 2011, 2012, and 2013 will be \$73,689, similar to the fees paid in Fiscal Year 2010. The proposed annual medical bill review fee reflects an estimated decrease of 40% from the costs of the medical bill review fees paid in Fiscal Year 2008.

The Risk Management budget for Fiscal Year 2011 contains adequate funds to pay for these services.

**PREPARED BY:** Mark W. Howard, Interim Risk Manager

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office